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INTERPRETIVE BULLETIN

DATE: April 1, 1999

TO: All State Chartered Credit Unions

FROM: James E. Forney
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SUBJECT: **Participation in Capital Accounts Offered by a Corporate Credit Union**

The National Credit Union Administration (NCUA) requires that corporate credit unions maintain a minimum capital ratio of 4 percent. The NCUA defines "capital" as the sum of a corporate credit union's reserves, undivided earnings, paid-in capital and membership capital, and defines "capital ratio" as capital divided by the corporate's moving daily average net assets. [see 12 C.F.R. §§ 704.2 & 704.3(b).] The Credit Union Division has affirmed that the Iowa League Corporate Central Credit Union (ILCCCU) has the authority to establish "Paid-in Capital" and "Membership Capital" accounts.

These capital accounts have certain common features, such as not being insured and requiring initial and annual disclosures. In addition, each has certain distinguishing features and are italicized below for comparison purposes:

Paid-in Capital Account:

1. Not insured by the NCUSIF or any other deposit insurer;
2. Has a *initial maturity of at least 20 years, is callable only at the option of the corporate and only if the corporate meets its minimum level of required capital after the funds are called;*
3. Is available to cover losses in the corporate that exceed reserves and undivided earnings;
4. Is available, in the event of liquidation of the corporate, only after satisfaction of all liabilities, including uninsured obligations to shareholders, the NCUSIF and *membership capital holders;* and
5. May not be used to *condition membership, services, or prices for services in the corporate.*

Membership Capital Account:

1. Not insured by the NCUSIF or any other deposit insurer;
2. Has a *minimum withdrawal notice of three years;*
3. Is available to cover losses in the corporate that exceed reserves, undivided earnings and *paid-in capital;*

4. Is available, in the event of liquidation of the corporate, only after satisfaction of all liabilities, including uninsured obligations to shareholders and the NCUSIF, *but excluding paid-in capital*; and,
5. May not be used to *pledge against borrowings in the corporate*.

In addition to the above, a corporate may determine other characteristics for these capital accounts that are consistent with the NCUA regulation. These include:

- The Membership Capital Account *may be required* in order for the holder *to be a member of the corporate* and *to participate in corporate services* or products;
- The Membership Capital Account of a member *may be sold to another credit union* in the corporate's field of membership, subject to the corporate's approval;
- The Paid-in Capital Account *may be either member or non-member owned*; and
- Both Paid-in Capital and Membership Capital accounts *may be either interest or non-interest bearing*.

NATURAL PERSON CREDIT UNION CONTRIBUTIONS TO A CAPITAL ACCOUNT

Iowa Code § 533.4(5)(f) provides natural-person credit unions the authority to participate in a corporate capital account. In considering whether or not to make such a contribution, a credit union should do so as a business decision. The credit union should consider, among other things: the objective(s) for making the contribution; the characteristics of the account; the risks associated with the contribution; and, such other determinations it deems appropriate. In addition, the credit union should evaluate alternatives available to it if it decides not to contribute to a corporate's membership capital. This evaluation should include: options of where it will obtain corporate services; the cost for receiving that service including costs related to association membership; the promptness in receiving the service; the sensitivity of the service provider to the credit union's needs; the location of the alternative provider, i.e., whether local or regional; and, the ability to have a voice in the election of the directors of the alternative service provider.

ACCOUNTING TREATMENT FOR CAPITAL CONTRIBUTIONS IN A CORPORATE

Natural person credit unions are to record a contribution made in a corporate capital account in a sub-account of general ledger account type 744 - Shares, Deposits, Certificates of Corporate Credit Unions, i.e., a separate sub-account for each (the membership capital and the paid-in capital) account. Interest received from a capital contribution is to be recorded in like sub-accounts of general ledger account type 126 - Income from Shares, Deposits, Certificates of Corporate Credit Unions. A natural person credit union's contribution to a corporate capital account is considered a risk asset for reserving purposes, and must be included when calculating the amount needed in the credit union's statutory Legal Reserve Account. [see Iowa Code § 533.17]

[This Interpretive Bulletin is intended solely to provide credit unions information regarding a corporate credit union's capital accounts and the accounting treatment to be followed for such accounts. It is not intended to be an endorsement of such accounts or to provide an evaluation of the merits of the ILCCU's capital program.]